

CRESTON COMMUNITY SCHOOL DISTRICT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2007

Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis (MD&A)		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Assets and Liabilities	J	22
Notes to Financial Statements		23-33
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		34
Notes to Required Supplementary Information - Budgetary Reporting		35
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	37
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	38
Schedule of Changes in Fiduciary Assets and Liabilities - Agency Fund	4	39
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	5	40
Schedule of Expenditures of Federal Awards	6	41
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		42-43
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133		44-45
Schedule of Findings and Questioned Costs		46-56

Creston Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**Board of Education
(Before September 2006 Election)**

Barb Wilmeth	President	2008
Callie Bruce	Vice President	2006
Bobbie McFee	Board Member	2008
Robert Deranleau	Board Member	2007
Rich Flynn	Board Member	2006

**Board of Education
(After September 2006 Election)**

Barb Wilmeth	President	2008
Robert Deranleau	Vice President	2007
Bobbie McFee	Board Member	2008
Randy Hughes	Board Member	2009
Stacy Wood	Board Member	2009

School Officials

Tim Hood	Superintendent	2007
Donald M. Krings	Board Secretary/ Business Manager	2007
Pat Moeller	District Treasurer	2007
Peter Pashler	Attorney	2007

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3050
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Creston Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Creston Community School District, Creston, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Creston Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2008 on our consideration of Creston Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board.

We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Creston Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nolte, Cornman & Johnson PC

NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Creston Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$11,369,529 in fiscal 2006 to \$12,765,336 in fiscal 2007, while General Fund expenditures increased from \$11,679,656 in fiscal 2006 to \$12,564,589 in fiscal 2007. This resulted in an increase in the District's General Fund balance from \$1,064,959 in fiscal 2006 to a balance of \$1,276,281 in fiscal 2007, a 19.8% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in local and tuition revenues in fiscal 2007. The increase in expenditures was due primarily to an increase in instructional expenses.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Creston Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Creston Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Creston Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Creston Community School District Annual Financial Report

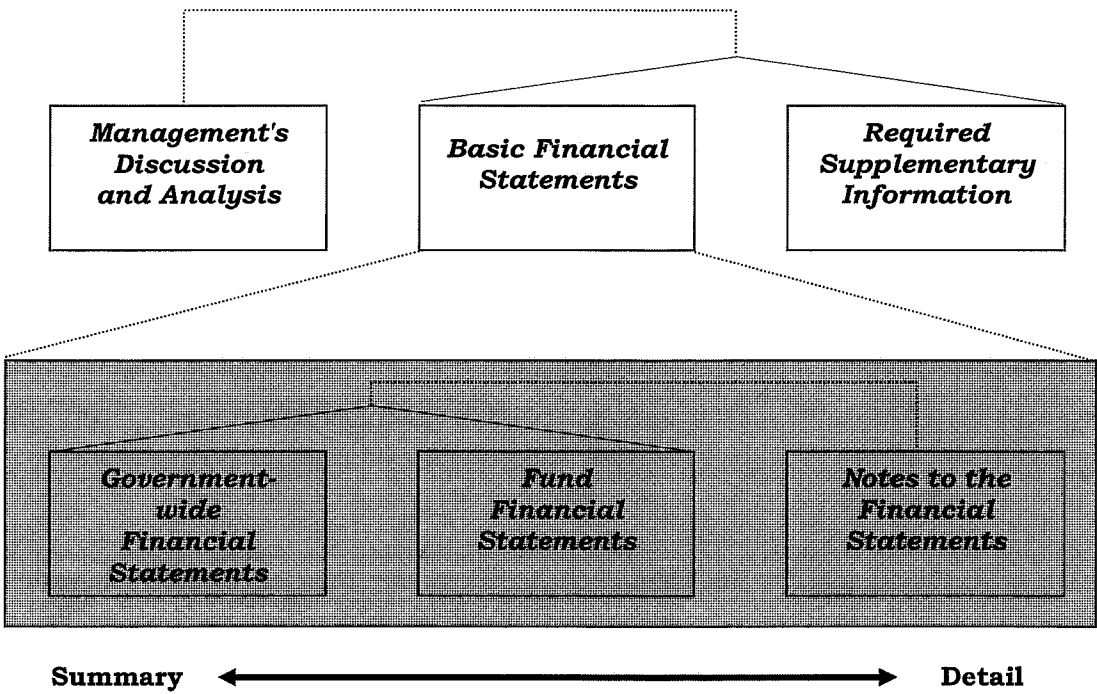


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. This fund is the agency fund.

- Agency Fund - These are funds for which the District administers and accounts for certain employee's cafeteria health insurance premiums and related expenditures.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 7,723,175	6,785,309	160,029	218,313	7,883,204	7,003,622	12.56%
Capital assets	21,585,092	22,356,092	273,109	258,461	21,858,201	22,614,553	-3.34%
Total assets	29,308,267	29,141,401	433,138	476,774	29,741,405	29,618,175	0.42%
Long-term obligations	13,076,357	13,666,363	0	0	13,076,357	13,666,363	-4.32%
Other liabilities	5,530,494	4,968,541	6,560	6,725	5,537,054	4,975,266	11.29%
Total liabilities	18,606,851	18,634,904	6,560	6,725	18,613,411	18,641,629	-0.15%
Net assets:							
Invested in capital assets, net of related debt	8,680,092	9,470,736	273,109	258,461	8,953,201	9,729,197	-7.98%
Restricted	1,004,491	215,719	0	0	1,004,491	215,719	365.65%
Unrestricted	1,016,833	820,042	153,469	211,588	1,170,302	1,031,630	13.44%
Total net assets	\$ 10,701,416	10,506,497	426,578	470,049	11,127,994	10,976,546	1.38%

The District's combined net assets increased by 1.38% or approximately \$151,448 over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. The District's restricted net assets increased \$788,772 or 365.65% over the prior year.

Unrestricted net assets- the part of net assets that can be used to finance day-to-day operations without constraint established by debt covenants, enabling legislation, or the legal requirements- increased \$138,672 or 13.44%. This reduction in unrestricted net assets was a result of the District using carryover fund balance to meet its financial obligations during the year.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,495,475	944,546	287,576	305,184	1,783,051	1,249,730	42.67%
Operating grants and contributions and restricted interest	1,941,371	1,887,754	482,402	442,605	2,423,773	2,330,359	4.01%
Capital grants and contributions and restricted interest	0	367,068	0	0	0	367,068	-100.00%
General revenues:							
Local tax	4,061,590	3,716,006	0	0	4,061,590	3,716,006	9.30%
Local option sales and service tax	1,143,692	934,971	0	0	1,143,692	934,971	22.32%
Unrestricted state grants	6,322,156	5,960,287	0	0	6,322,156	5,960,287	6.07%
Other	405,466	549,327	16,025	4,672	421,491	553,999	-23.92%
Total revenues	15,369,750	14,359,959	786,003	752,461	16,155,753	15,112,420	6.90%
Program expenses:							
Governmental activities:							
Instructional	8,929,356	7,992,119	644	0	8,930,000	7,992,119	11.74%
Support services	3,981,558	3,799,183	60,519	0	4,042,077	3,799,183	6.39%
Non-instructional programs	0	0	768,311	704,970	768,311	704,970	8.98%
Other expenses	2,263,917	3,017,600	0	0	2,263,917	3,017,600	-24.98%
Total expenses	15,174,831	14,808,902	829,474	704,970	16,004,305	15,513,872	3.16%
Change in net assets	194,919	(448,943)	(43,471)	47,491	151,448	(401,452)	-137.73%
Net assets beginning of year	10,506,497	10,955,440	470,049	422,558	10,976,546	11,377,998	-3.53%
Net assets end of year	\$ 10,701,416	10,506,497	426,578	470,049	11,127,994	10,976,546	1.38%

Property tax and unrestricted state grants account for 67.6% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 97.96% of the revenue from business type activities.

The District's total revenues were approximately \$16.16 million of which \$15.37 million was for governmental activities and less than \$0.79 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 6.90% increase in revenues and a 3.16% increase in expenses. Unrestricted state grants increased \$361,869 and local tax increased \$554,305 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

Governmental Activities

Revenues for governmental activities were \$15,369,750 and expenses were \$15,174,831.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 8,929,356	7,992,119	10.50%	5,985,373	5,618,565	6.13%
Support services	3,981,558	3,799,183	4.58%	3,953,723	3,771,694	4.60%
Other expenses	2,263,917	3,017,600	-33.29%	1,798,889	2,219,275	-23.37%
Totals	<u>\$ 15,174,831</u>	<u>14,808,902</u>	<u>2.41%</u>	<u>11,737,985</u>	<u>11,609,534</u>	<u>1.09%</u>

- The cost financed by users of the District's programs was \$1,495,475.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,941,371.
- The net cost of governmental activities was financed with \$4,061,590 in local property tax, \$1,143,692 in local option sales and service tax, \$6,322,156 in unrestricted state grants, and \$78,468 in interest income and \$326,998 in other general revenues.

Business-Type Activities

Revenues of the District's business-type activities were \$786,003 and expenses were \$829,474. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Creston Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$2,292,561, above last year's ending fund balances of a \$1,740,324.

Governmental Fund Highlights

- The District's improving General Fund financial position is the product of many factors. Increase in the state revenue during the year resulted in an increase in revenues. Normal increases in insurance and transportation and maintenance costs allowed for an increase in expenditures during the year. The increase in expenditures was less than the increase in revenues ensuring an increase in the financial position of the District.
- The Capital Projects fund balance increased during the current year, from \$309,824 to \$651,788. This increase in fund balance was primarily due to the increase in local option sales and service tax.

Proprietary Fund Highlights

The School Nutrition Fund net assets decreased from \$470,049 at June 30, 2006 to \$426,578 at June 30, 2007, representing a decrease of 9.2%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$457,814 more than budgeted revenues, a variance of 2.9%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had invested \$21,858,201, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 4.11% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$720,938.

The original cost of the District's capital assets was \$29,619,295. Governmental funds account for \$29,083,407 with \$535,888 in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the land category. The District's land totaled \$340,140 at June 30, 2006, compared to \$170,140 reported at June 30, 2007.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 170,140	340,140	0	0	170,140	340,140	-49.98%
Buildings	20,534,476	21,209,021	0	0	20,534,476	21,209,021	-3.18%
Improvements other than buildings	645,623	687,608	0	0	645,623	687,608	-6.11%
Machinery and equipment	234,853	299,323	273,109	258,461	507,962	557,784	-8.93%
Total	\$ 21,585,092	22,536,092	273,109	258,461	21,858,201	22,794,553	-4.11%

Long-Term Debt

At June 30, 2007, the District had long-term debt outstanding of \$13,076,357 in general obligation bonds, capital loan notes and early retirement. This represents a decrease of approximately 4.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had total outstanding general obligation bonds payable of \$11,670,000 at June 30, 2007.

The District had total outstanding capital loan notes payable of \$1,235,000 at June 30, 2007.

The District also had total outstanding early retirement payable of \$171,357 at June 30, 2007.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 11,670,000	12,170,000	-4.1%
Capital loan notes	1,235,000	1,370,000	-9.9%
Early retirement	171,357	126,363	35.6%
Total	\$ 13,076,357	13,666,363	-4.3%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District's October 2007 certified enrollment reported a decrease of 69.4 students.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Donald M. Krings, District Business Manager, Creston Community School District, 619 N Maple, Creston, Iowa, 50801.

BASIC FINANCIAL STATEMENTS

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 1,304,935	0	1,304,935
Other	1,762,901	137,547	1,900,448
Receivables:			
Property tax:			
Delinquent	61,106	0	61,106
Succeeding year	4,107,803	0	4,107,803
Accounts	0	10,377	10,377
ISCAP accrued interest (Note 4)	390	0	390
Due from other governments	486,040	0	486,040
Inventories	0	12,105	12,105
Capital assets, net of accumulated depreciation (Note 5)	21,585,092	273,109	21,858,201
Total Assets	29,308,267	433,138	29,741,405
Liabilities			
Interest payable	99,880	0	99,880
ISCAP warrants payable (Note 4)	1,307,000	0	1,307,000
ISCAP accrued interest payable (Note 4)	327	0	327
ISCAP unamortized premium	9,698	0	9,698
Deferred revenue:			
Succeeding year property tax	4,107,803	0	4,107,803
Other	5,786	0	5,786
Unearned revenue	0	6,560	6,560
Long-term liabilities (Note 6):			
Portion due within one year:			
General obligation bonds	520,000	0	520,000
Capital loan notes	140,000	0	140,000
Early retirement	98,630	0	98,630
Portion due after one year:			
General obligation bonds	11,150,000	0	11,150,000
Capital loan notes	1,095,000	0	1,095,000
Early retirement	72,727	0	72,727
Total Liabilities	18,606,851	6,560	18,613,411
Net Assets			
Invested in capital assets, net of related debt	8,680,092	273,109	8,953,201
Restricted for:			
Talented and gifted	56,343	0	56,343
Professional development	503	0	503
Other	36,976	0	36,976
Debt service	52,913	0	52,913
Capital projects	651,788	0	651,788
Physical plant and equipment levy	135,887	0	135,887
Other special revenue purposes	70,081	0	70,081
Unrestricted	1,016,833	153,469	1,170,302
Total Net Assets	\$ 10,701,416	426,578	11,127,994

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Gov- ern- men- tal Activities	Busi- ness- Type Activities	Total
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,901,563	383,570	1,364,056	(4,153,937)	0	(4,153,937)
Special instruction	2,130,654	463,142	84,452	(1,583,060)	0	(1,583,060)
Other instruction	897,139	648,763	0	(248,376)	0	(248,376)
	8,929,356	1,495,475	1,448,508	(5,985,373)	0	(5,985,373)
Support services:						
Student services	326,932	0	0	(326,932)	0	(326,932)
Instructional staff services	359,922	0	0	(359,922)	0	(359,922)
Administration services	1,511,141	0	0	(1,511,141)	0	(1,511,141)
Operation and maintenance of plant services	1,227,459	0	0	(1,227,459)	0	(1,227,459)
Transportation services	556,104	0	27,835	(528,269)	0	(528,269)
	3,981,558	0	27,835	(3,953,723)	0	(3,953,723)
Other expenditures:						
Facilities acquisitions	608,651	0	0	(608,651)	0	(608,651)
Long-term debt interest	621,982	0	0	(621,982)	0	(621,982)
AEA flowthrough	465,028	0	465,028	0	0	0
Depreciation(unallocated)*	568,256	0	0	(568,256)	0	(568,256)
	2,263,917	0	465,028	(1,798,889)	0	(1,798,889)
Total governmental activities	15,174,831	1,495,475	1,941,371	(11,737,985)	0	(11,737,985)
Business-Type activities:						
Instruction:						
Other instruction	644	0	0	0	(644)	(644)
Support services:						
Administration services	60,519	0	0	0	(60,519)	(60,519)
Non-instructional programs:						
Nutrition services	768,311	287,576	482,402	0	1,667	1,667
Total business-type activities	829,474	287,576	482,402	0	(59,496)	(59,496)
Total	\$ 16,004,305	1,783,051	2,423,773	(11,737,985)	(59,496)	(11,797,481)
General Revenues:						
Property tax levied for:						
General purposes				\$ 3,291,668	0	3,291,668
Debt services				497,246	0	497,246
Capital outlay				272,676	0	272,676
Local option sales and service tax				1,143,692	0	1,143,692
Unrestricted state grants				6,322,156	0	6,322,156
Unrestricted investment earnings				78,468	16,025	94,493
Other				326,998	0	326,998
Total general revenues				11,932,904	16,025	11,948,929
Changes in net assets				194,919	(43,471)	151,448
Net assets beginning of year				10,506,497	470,049	10,976,546
Net assets end of year				\$ 10,701,416	426,578	11,127,994

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
Assets				
Cash and pooled investments:				
ISCAP(Note 4)	\$ 1,304,935	0	0	1,304,935
Other	909,027	502,054	351,820	1,762,901
Receivables:				
Property tax:				
Delinquent	48,434	0	12,672	61,106
Succeeding year	3,282,005	0	825,798	4,107,803
ISCAP accrued interest (Note 4)	390	0	0	390
Due from other governments	336,306	149,734	0	486,040
Total Assets	\$ 5,881,097	651,788	1,190,290	7,723,175
Liabilities and Fund Balances				
Liabilities:				
ISCAP warrants payable (Note 4)	\$ 1,307,000	0	0	1,307,000
ISCAP accrued interest payable (Note 4)	327	0	0	327
ISCAP unamortized premium	9,698	0	0	9,698
Deferred revenue:				
Succeeding year property tax	3,282,005	0	825,798	4,107,803
Other	5,786	0	0	5,786
Total liabilities	4,604,816	0	825,798	5,430,614
Fund balances:				
Reserved for:				
Debt service	0	0	52,913	52,913
Talented and gifted	56,343	0	0	56,343
Professional development	503	0	0	503
Other	36,976	0	0	36,976
Unreserved:				
Designated for special purpose	99,031	0	0	99,031
Undesignated	1,083,428	651,788	311,579	2,046,795
Total fund balances	1,276,281	651,788	364,492	2,292,561
Total Liabilities and Fund Balances	\$ 5,881,097	651,788	1,190,290	7,723,175

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 2,292,561
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	21,585,092
Accrued interest payable in long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(99,880)
Long-term liabilities, including bonds payable and early retirement are not due and payable in the current period and, are not reported as liabilities in the governmental funds.	<u>(13,076,357)</u>
Net assets of governmental activities (page 13)	<u><u>\$ 10,701,416</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 3,191,210	1,143,692	870,380	5,205,282
Tuition	846,712	0	0	846,712
Other	464,591	11,352	578,286	1,054,229
State sources	7,451,555	0	704	7,452,259
Federal sources	811,268	0	0	811,268
Total revenues	12,765,336	1,155,044	1,449,370	15,369,750
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	5,483,982	0	0	5,483,982
Special instruction	2,130,654	0	0	2,130,654
Other instruction	593,625	0	351,750	945,375
	8,208,261	0	351,750	8,560,011
Support services:				
Student services	326,932	0	0	326,932
Instructional staff services	344,642	0	0	344,642
Administration services	1,511,105	0	36	1,511,141
Operation and maintenance of plant services	1,195,038	0	22,438	1,217,476
Transportation services	513,583	0	7,000	520,583
	3,891,300	0	29,474	3,920,774
Other expenditures:				
Facilities acquisitions	0	166,650	454,967	621,617
Long-term debt:				
Principal	0	0	635,000	635,000
Interest and fiscal charges	0	0	625,658	625,658
AEA flowthrough	465,028	0	0	465,028
	465,028	166,650	1,715,625	2,347,303
Total expenditures	12,564,589	166,650	2,096,849	14,828,088
Excess(deficiency) of revenues over(under) expenditures	200,747	988,394	(647,479)	541,662
Other financing sources(uses):				
Transfers in	0	0	821,208	821,208
Transfers out	0	(646,430)	(174,778)	(821,208)
Sale of equipment	10,575	0	0	10,575
Total other financing sources(uses)	10,575	(646,430)	646,430	10,575
Net change in fund balances	211,322	341,964	(1,049)	552,237
Fund balance beginning of year	1,064,959	309,824	365,541	1,740,324
Fund balance end of year	\$ 1,276,281	651,788	364,492	2,292,561

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 552,237

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlays expenditures in the current year, as follows:

Capital outlays	\$ 60,801	
Depreciation expense	(680,561)	
Loss on disposal of capital assets	<u>(331,240)</u>	(951,000)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 635,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,676

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Early retirement	<u>(44,994)</u>
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Changes in net assets of governmental activities (page 14) \$ 194,919

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
Assets	
Cash and cash equivalents	\$ 137,547
Accounts receivable	10,377
Inventories	12,105
Capital assets, net of accumulated depreciation (Note 5)	<u>273,109</u>
Total Assets	<u>433,138</u>
Liabilities	
Unearned revenues	<u>6,560</u>
Total Liabilities	<u>6,560</u>
Net Assets	
Invested in capital assets	273,109
Unrestricted	<u>153,469</u>
Total Net Assets	<u>\$ 426,578</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for service	\$ 287,576
TOTAL OPERATING REVENUES	<u>287,576</u>
OPERATING EXPENSES:	
Instruction:	
Other instruction:	
Other	<u>644</u>
Support services:	
Administration services:	
Salaries	48,620
Benefits	11,899
	<u>60,519</u>
Non-instructional programs:	
Food service operations:	
Salaries	232,843
Benefits	51,174
Services	13,078
Supplies	427,831
Other	535
Depreciation	40,377
	<u>765,838</u>
TOTAL OPERATING EXPENSES	<u>827,001</u>
OPERATING LOSS	<u>(539,425)</u>
NON-OPERATING REVENUES:	
Loss on disposal of assets	(2,473)
Interest	16,025
State sources	7,752
Federal sources	474,650
TOTAL NON-OPERATING REVENUES	<u>495,954</u>
Change in net assets	(43,471)
Net assets at beginning of year	<u>470,049</u>
Net assets end of year	<u><u>\$ 426,578</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 282,551
Cash received from miscellaneous operating activities	5,822
Cash payments to employees for services	(344,536)
Cash payments to suppliers for goods or services	(399,087)
Net cash used in operating activities	<u>(455,250)</u>
Cash flows from non-capital financing activities:	
State grants received	7,752
Federal grants received	436,226
Net cash provided by non-capital financing activities	<u>443,978</u>
Cash flows from investing activities:	
Interest on investments	<u>16,025</u>
Cash flows from capital financing activities:	
Purchase of assets	<u>(57,498)</u>
Net decrease in cash and cash equivalents	(52,745)
Cash and cash equivalents at beginning of year	<u>190,292</u>
Cash and cash equivalents at end of year	<u>\$ 137,547</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (539,425)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	38,424
Depreciation	40,377
Decrease in inventories	4,986
Decrease in accounts receivable	553
Decrease in accounts payable	(409)
Increase in unearned revenue	244
Net cash used in operating activities	<u>\$ (455,250)</u>

RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR
END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE
SHEET:

Current assets:	
Cash and pooled investments	<u>\$ 137,547</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$38,424.

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2007

	<u>Agency</u>
Assets	
Cash and pooled investments	<u>\$ 2,597</u>
Liabilities	
Due to other groups	<u>\$ 2,597</u>

SEE NOTES TO FINANCIAL STATEMENTS.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Creston Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the City of Creston, Iowa, and the predominate agricultural territory in Adams, Ringgold and Union Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Creston Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Creston Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Adams, Ringgold and Union County Assessors' Conference Board.

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for local option sales and service tax revenues and capital improvement expenditures.

The District's proprietary fund is the School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 2,394,001</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investor's Service.

(3) Transfers

The detail of transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 646,430
	Special Revenue-	
	Physical Plant and	
Debt Service	Equipment Levy	174,778
Total		<u>\$ 821,208</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/28/2007	6/27/2008	\$ 1,304,935	390	1,307,000	327

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in

an amount equal to 25% of the warrant amount. For the year ended June 30, 2007, no ISCAP advance activity was noted.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

(5) Capital Assets

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 340,140	0	170,000	170,140
Total capital assets not being depreciated	340,140	0	170,000	170,140
Capital assets being depreciated:				
Buildings	26,381,214	0	498,000	25,883,214
Land improvements	1,320,280	12,966	10,554	1,322,692
Machinery and equipment	1,664,226	47,835	4,700	1,707,361
Total capital assets being depreciated	29,365,720	60,801	513,254	28,913,267
Less accumulated depreciation for:				
Buildings	5,172,193	513,305	336,760	5,348,738
Land improvements	632,672	54,951	10,554	677,069
Machinery and equipment	1,364,903	112,305	4,700	1,472,508
Total accumulated depreciation	7,169,768	680,561	352,014	7,498,315
Total capital assets being depreciated, net	22,195,952	(619,760)	161,240	21,414,952
Governmental activities capital assets, net	\$ 22,536,092	(619,760)	331,240	21,585,092

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 516,705	57,498	38,315	535,888
Less accumulated depreciation	258,244	40,377	35,842	262,779
Business-type activities capital assets, net	\$ 258,461	17,121	2,473	273,109

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular \$ 35,150

Support services:

Instructional staff services 15,280

Operation and maintenance of plant services 10,365

Transportation 51,510

112,305

Unallocated depreciation 568,256

Total governmental activities depreciation expense \$ 680,561

Business-type activities:

Food services \$ 40,377

(6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation	\$ 12,170,000	0	500,000	11,670,000	520,000
Capital loan notes	1,370,000	0	135,000	1,235,000	140,000
Early retirement	126,363	145,455	100,461	171,357	98,630
Total	\$ 13,666,363	145,455	735,461	13,076,357	758,630

General Obligation

Details of the District's June 30, 2007 General Obligation bonds indebtedness is as follows:

Year Ending June 30,	Bond Issue of May 1, 2003			Bond Issue of May 1, 2003			Total	
	Interest Rates	Principal	Interest	Interest Rates	Principal	Interest	Principal	Interest
2008	5.00 %	\$ 455,000	476,840	5.00 %	65,000	85,430	\$ 520,000	562,270
2009	5.00	480,000	454,090	5.20	70,000	82,050	550,000	536,140
2010	5.25	500,000	430,090	5.20	80,000	78,410	580,000	508,500
2011	5.25	530,000	403,840	5.20	80,000	74,250	610,000	478,090
2012	5.25	555,000	376,015	5.20	85,000	70,090	640,000	446,105
2013-2017	4.40-4.80	3,190,000	1,459,711	3.75-4.20	495,000	291,635	3,685,000	1,751,346
2018-2022	4.88-5.00	4,040,000	620,883	4.30-4.40	595,000	179,850	4,635,000	800,733
2023	5.00	0	0	4.40	450,000	19,800	450,000	19,800
Total		\$ 9,750,000	4,221,469		\$ 1,920,000	881,515	\$ 11,670,000	5,102,984

Capital Loan Notes

On March 1, 2004, the District issued capital loan notes of \$1,500,000. These notes will be paid from the Physical Plant and Equipment Levy (PPEL) Fund until the year 2015. Details of the District's June 30, 2007 Capital Loan Notes indebtedness is as follows:

Year Ending June 30,	Note Issue of March 1, 2004			
	Interest Rates	Principal	Interest	
2008	2.15	% \$ 140,000	37,013	
2009	2.40	140,000	34,003	
2010	2.75	145,000	30,643	
2011	2.95	150,000	26,655	
2012	3.20	155,000	22,230	
2013	3.30	160,000	17,270	
2014	3.45	170,000	11,990	
2015	3.50	175,000	6,125	
Total		\$ 1,235,000	185,928	

Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-nine and must have completed twenty-four years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. Early retirement incentives for each eligible employee is equal to the difference between the employees annual full-time salary and the annual full-time salary for Step 3 of BA lane on the 2006-2007 salary schedule. Early retirement benefits paid during the year ended June 30, 2007, totaled \$100,461. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$464,626, \$434,272, and \$416,329 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental, life and long-term disability.

District contributions to ISEBA for the year ended June 30, 2007 were \$899,923.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$465,028 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

CRESTON COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 7,106,223	303,601	7,409,824	5,851,503	5,851,503	1,558,321
State sources	7,452,259	7,752	7,460,011	8,676,436	8,676,436	(1,216,425)
Federal sources	811,268	474,650	1,285,918	1,170,000	1,170,000	115,918
Total revenues	15,369,750	786,003	16,155,753	15,697,939	15,697,939	457,814
Expenditures:						
Instruction	8,560,011	644	8,560,655	10,606,143	10,606,143	2,045,488
Support services	3,920,774	60,519	3,981,293	3,897,045	3,897,045	(84,248)
Non-instructional programs	0	765,838	765,838	1,273,058	1,273,058	507,220
Other expenditures	2,347,303	0	2,347,303	3,496,843	3,496,843	1,149,540
Total expenditures	14,828,088	827,001	15,655,089	19,273,089	19,273,089	3,618,000
Excess(deficiency) of revenues over(under) expenditures	541,662	(40,998)	500,664	(3,575,150)	(3,575,150)	4,075,814
Other financing sources, net	10,575	(2,473)	8,102	201,000	201,000	(192,898)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	552,237	(43,471)	508,766	(3,374,150)	(3,374,150)	3,882,916
Balance beginning of year	1,740,324	470,049	2,210,373	3,305,239	3,305,239	(1,094,866)
Balance end of year	\$ 2,292,561	426,578	2,719,139	(68,911)	(68,911)	2,788,050

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private-Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2007, expenditures in the support services function exceeded the amounts budgeted.

OTHER SUPPLEMENTARY INFORMATION

CRESTON COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
Assets						
Cash and pooled investments	\$ 104,086	70,081	131,939	306,106	45,714	351,820
Receivables:						
Property tax:						
Current year delinquent	1,525	0	3,948	5,473	7,199	12,672
Succeeding year	160,000	0	170,798	330,798	495,000	825,798
Total Assets	\$ 265,611	70,081	306,685	642,377	547,913	1,190,290
Liabilities and Fund Balances						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	\$ 160,000	0	170,798	330,798	495,000	825,798
Total liabilities	160,000	0	170,798	330,798	495,000	825,798
Fund balances:						
Reserved:						
Debt service	0	0	0	0	52,913	52,913
Unreserved	105,611	70,081	135,887	311,579	0	311,579
Total fund balances	105,611	70,081	135,887	311,579	52,913	364,492
Total Liabilities and Fund Balances	\$ 265,611	70,081	306,685	642,377	547,913	1,190,290

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2007

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue	Debt Service	
REVENUES:						
Local sources:						
Local tax	\$ 100,458	0	272,676	373,134	497,246	870,380
Other	1,714	350,496	225,600	577,810	476	578,286
State sources	83	0	220	303	401	704
TOTAL REVENUES	102,255	350,496	498,496	951,247	498,123	1,449,370
EXPENDITURES:						
Current:						
Instruction:						
Other instruction	0	351,750	0	351,750	0	351,750
Support services:						
Administration services	0	36	0	36	0	36
Operation and maintenance of plant services	18,560	3,878	0	22,438	0	22,438
Transportation services	0	0	7,000	7,000	0	7,000
Other expenditures:						
Facility acquisition	0	0	454,967	454,967	0	454,967
Long-term debt:						
Principal	0	0		0	635,000	635,000
Interest and fiscal charges	0	0		0	625,658	625,658
TOTAL EXPENDITURES	18,560	355,664	461,967	836,191	1,260,658	2,096,849
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	83,695	(5,168)	36,529	115,056	(762,535)	(647,479)
Other financing sources(uses):						
Transfer in	0	0	0	0	821,208	821,208
Transfer out	0	0	(174,778)	(174,778)	0	(174,778)
Total other financing sources(uses)	0	0	(174,778)	(174,778)	821,208	646,430
EXCESS(DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES AND OTHER FINANCING USES	83,695	(5,168)	(138,249)	(59,722)	58,673	(1,049)
Fund balance beginning of year	21,916	75,249	274,136	371,301	(5,760)	365,541
Fund balance end of year	\$ 105,611	70,081	135,887	311,579	52,913	364,492

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Thespians	\$ 1,561	3,904	1,318	4,147
Speech	0	1,016	1,012	4
Vocal	11,960	20,082	29,825	2,217
Frosh-Soph festival	428	433	322	539
HS general athletics	13,828	89,790	100,203	3,415
Student activity	0	2,485	0	2,485
Marching panthers	(980)	10,600	9,516	104
National honor society	0	348	316	32
Industrial arts	3	3,041	3,044	0
Special olympics	1,406	1,697	2,087	1,016
Boys basketball	145	3,334	1,597	1,882
Football	(14,705)	8,197	(8,533)	2,025
Baseball	(6,535)	4,107	(2,428)	0
Boys track	0	40	37	3
Cross country	0	1,322	1,321	1
Tennis	128	2,446	2,096	478
Golf	0	642	602	40
Wrestling	361	6,949	7,064	246
Girls basketball	1,844	8,027	8,362	1,509
Volleyball	1,130	2,804	2,228	1,706
Softball	(4,333)	2,037	(2,296)	0
Girls track	1	0	0	1
Soccer	294	1,731	1,639	386
MS general athletics	(7,976)	347	(7,629)	0
Elementary library	17	0	0	17
Alternative school	1,265	0	0	1,265
Alumni	2,484	53	948	1,589
Class of 2007	2,824	289	2,783	330
Class of 2008	566	10,542	7,423	3,685
Class of 2009	468	378	39	807
Class of 2011	897	0	650	247
Student government	3,532	6,840	8,202	2,170
Peppers	4,384	3,826	7,961	249
Cheerleaders	1,071	3,782	4,852	1
Big sister/little sister	1,510	0	0	1,510
FCCLA	1,183	1,052	599	1,636
Spanish club	1	0	0	1
FFA	23,823	27,950	35,384	16,389
Crest/yearbook	14,107	9,821	23,840	88
Teachers lounge	1,640	0	145	1,495
JDC	257	30	149	138
HS weight room	3,706	19,572	22,630	648
Interest	2,892	1,612	0	4,504
Entrepreneur	463	426	613	276
Clearing account	1,454	83,772	80,673	4,553
Library	700	0	664	36
Hawkeye 10 conference	7,445	5,172	6,406	6,211
Total	\$ 75,249	350,496	355,664	70,081

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -
 AGENCY FUND
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Assets				
Cash and pooled investments	\$ 2,363	234	0	2,597
Liabilities				
Due to other groups	\$ 2,363	234	0	2,597

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,205,282	4,650,977	4,675,468	4,586,430
Tuition	846,712	531,819	417,718	544,102
Other	1,054,229	1,035,187	992,047	697,535
State sources	7,452,259	6,916,779	6,564,307	6,252,892
Federal sources	811,268	1,162,023	801,998	1,644,172
Total	<u>\$ 15,369,750</u>	<u>14,296,785</u>	<u>13,451,538</u>	<u>13,725,131</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,483,982	4,926,797	4,492,302	4,566,081
Special instruction	2,130,654	1,719,109	1,689,582	2,434,811
Other instruction	945,375	1,413,132	1,479,975	1,173,527
Support services:				
Student services	326,932	331,017	318,548	264,642
Instructional staff services	344,642	292,024	419,125	274,942
Administration services	1,511,141	1,423,425	1,214,908	940,627
Operation and maintenance of plant services	1,217,476	1,235,867	1,178,766	710,303
Transportation services	520,583	561,262	355,322	359,042
Central support services	0	0	0	105,806
Non-instructional:				
Food service	0	2,868	0	0
Other expenditures:				
Facilities acquisitions	621,617	1,376,643	2,746,755	10,856,929
Long Term Debt:				
Principal	635,000	610,000	460,000	445,000
Interest and fiscal charges	625,658	647,865	673,912	644,876
AEA flow-through	465,028	431,257	421,173	421,480
Total	<u>\$ 14,828,088</u>	<u>14,971,266</u>	<u>15,450,368</u>	<u>23,198,066</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATIONS (non-cash)	10.550	FY 07	\$ 38,424
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	88,836
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	234,478
			<u>323,314</u>
FRESH FRUIT AND VEGETABLE PROGRAM	10.582	FY 07	<u>112,912</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-G	269,672
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	1503-GC	39,804
			<u>309,476</u>
INNOVATIVE EDUCATION PROGRAM STRATEGIES (TITLE V PROGRAM)	84.298	FY 07	<u>2,738</u>
SAFE AND DRUG-FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>5,718</u>
ENHANCING EDUCATION THROUGH TECHNOLOGY	84.318	FY 07	<u>3,643</u>
SPECIAL EDUCATION TECHNICAL ASSISTANCE	84.326	FY 07	<u>100</u>
READING FIRST STATE GRANTS	84.357	FY 07	<u>135,300</u>
TITLE IIA - FEDERAL TEACHER QUALITY PROGRAM	84.367	FY 07	<u>124,769</u>
GRANTS FOR STATE ASSESSMENTS AND RELATED ACTIVITIES (TITLE VIA)	84.369	FY 07	<u>10,220</u>
AREA EDUCATION AGENCY:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>16,269</u>
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>84,452</u>
TOTAL			<u>\$ 1,167,335</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Creston Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the
Creston Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Creston Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 25, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creston Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Creston Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Creston Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Creston Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Creston Community School District's financial statements that is more than inconsequential will not be prevented or detected by Creston Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Creston Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-07 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Creston Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Creston Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Creston Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Creston Community School District and other parties to whom Creston Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Creston Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

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Independent Auditor's Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Board of Education of
Creston Community School District

Compliance

We have audited the compliance of Creston Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Creston Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Creston Community School District's management. Our responsibility is to express an opinion on Creston Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Creston Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Creston Community School District's compliance with those requirements.

In our opinion, Creston Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Creston Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Creston Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Creston Community School District's internal control over compliance.

A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We consider the significant deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-07 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Creston Community School District and other parties to whom Creston Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.


NOLTE, CORNMAN & JOHNSON, P.C.

February 25, 2008

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose any audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major program was as follows:
 - CFDA Number 84.010 - Title I Grants to Local Educational Agencies

Clustered Programs:

 - CFDA Number 10.553 - School Breakfast Program
 - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Creston Community School District did not qualify as a low-risk auditee.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

II-B-07 District and Regional Rents - We noted during our audit that the district receives money for use of facilities when hosting district and regional events. Currently the rent proceeds are being recorded in the Student Activity Fund.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. In the future the district should receipt rent collected for facility usage into the General Fund.

Response - Rental money will be sent to the General Fund.

Conclusion - Response accepted.

II-C-07 Accounting Software - We noted during the audit that the Activity Fund is utilizing two different accounting softwares. The accounting personnel for the Student Activity Fund maintains records on Data Team software and is also using the Districts' official software, Software Unlimited. The District had changed the software to Software Unlimited in an effort for consistency in the required upload of financial information to the State. The District had developed a dual record keeping period to ensure the records would be available. However, the Student Activity Fund accounting personnel continues to maintain the old software and enters only summarized information, which was determined to be incomplete. The Software Unlimited records should be the official records; however it is not being utilized and is not complete.

Recommendation - The District needs to maintain one set of records. The Student Activity Fund accounting personnel should be trained to utilize the official software. The District Chief Financial Officer should have supervisory function over all accounting personnel and should ensure that the official records are maintained in conformity with the District policies and procedures.

Response - The schedule is set to complete the move to Software Unlimited.

Conclusion - Response accepted.

- II-D-07 Supporting Documents for Payments to Officials - We noted during the audit that payments were made to athletic officials from the Student Activity fund, however, there were not always copies of the contracts with the paid bills.

Recommendation - Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed similar to other vendor payments. The district should have a policy and (athletic) officials should be informed that payment will be made in this manner unless a valid contract exists. Copies of the signed contracts should be supplied to the accounting staff before checks are issued. The signed contract should then be kept with the paid bills.

Response - Contracts will be kept with the paid bills.

Conclusion - Response accepted.

- II-E-07 Gate Admissions - It was noted that the District utilizes pre-numbered tickets for event admissions and a reconciliation is performed after the event. However, through discussion with personnel, it was discovered that tickets are torn off the roll after the event so that the number of tickets sold will match the money received. In addition the reconciliation is only performed by one person after the event. This procedure significantly impacts the intended controls of using the pre-numbered tickets.

Recommendation - The internal control of the District utilizing pre-numbered tickets is deteriorated by tearing off the number needed to reconcile to the cash collected. The District should have internal control procedures established for handling cash for all activity events, including athletic events and communicate the policies and procedures to individuals involved. The Board would of course, approve any policies and the District's business office should be involved in developing the detailed procedures. At a minimum these procedures should include:

- a. Cash or change boxes should be established with a specified amount.
- b. The District should use pre-numbered tickets.
- c. Two or more individuals should be involved in the cash collection/ticket sales process. In addition to cash collection/ticket sales procedures, the individuals should be instructed to not leave the cash/change boxes unattended under any circumstances.
- d. At the end of the event, cash should be counted and reconciled (by two or more individuals) to sales/pre-numbered tickets sold including the amount of the beginning cash.
- e. To reconcile, the next unsold ticket number less the beginning ticket number determines the number of tickets sold. This number times the price per ticket equals total sales. Total sales compared to total collected should reconcile. Variances, if any should be minimal.
- f. A reconciliation form should be completed and signed off by the individuals responsible for counting and reconciling the cash.

- g. The cash and change box should be turned into the Athletic Director (AD) or designee responsible for the "accounting" function at the event.
- h. The AD or designee should be required to take the cash collections to the night depository at the bank or at a minimum, lock the cash collections in the District's vault or other secure location at the District's office for deposit on the next working day. District procedures should prohibit individuals from taking cash collections home.
- i. A pre-numbered receipt should be issued by the Business Office the next working day in the amount of the confirmed deposit.
- j. Administrative personnel should periodically review/test the process to ensure procedures are working as prescribed.

Response - Most areas are done and the rest will be complete before the end of the fiscal year.

Conclusion - Response accepted.

II-F-07 Receipting Process - During the audit, it was noted in the Activity Fund that receipts were not being given to sponsors or students bringing money to the District's high school office. Sponsors drop off money on the Activity Fund secretary's desk to be counted and receipted with no supporting documentation or reconciliation sheets as to where the money came from. The sponsors should keep documentation of the individuals they received money from and turn this documentation into the office when they turn the money in. It appeared that deposits slips from the bank reconciled to what was receipted into the District's software system. But when asked for a pre-numbered receipt book to determine the composition and accuracy of the bank deposit, it was discovered that a pre-numbered receipt book was not being used.

Recommendation - The district actually maintains multiple layers of receipting from, sponsors, to the building office, to the central office. When sponsors or fundraising chairpersons submit money to the office for previously collected receipts, they should provide documentation of their receipts. This documentation should be used when reconciling deposits to receipts. The district should take necessary steps to require all sponsors to turn in collected money on a daily basis with a detailed receipts or another form of detailed documentation. This detailed documentation should at a minimum include the individual that the sponsor received the money from, the purpose, the fund/organization/club that needs to be credited, the date and amount.

The District should review its receipting process and implement the use of a pre-numbered receipt book. The receipt book is necessary to be able to trace the composition and accuracy of bank deposits as well as safeguarding the assets of the District.

Response - We are issuing numbered receipts. We will email the coaches/sponsors on issuing receipts.

Conclusion - Response accepted.

II-G-07 Purchase Orders - We noted during our audit that purchase orders in the Activity Fund were not always completely filled out. We noted instances of purchase orders not having dates on them, not showing what was to be purchased, and at what price. Purchase orders are typically used to document approval prior to the purchase as well as documenting which account will be paying for the invoice.

Recommendation - The District should review procedures in place with regard to use of purchase orders, placing the order and subsequent payment. The District should require purchase orders be completed prior to ordering. With the proper use of purchase orders, the District can ensure that purchases are properly approved and authorized before purchasing.

In cases when an invoice may not be available, the District should adopt procedures such as requiring additional approval or requiring support document other than an invoice. All supporting documentation for the purchase should be retained by the District.

Response - We are working on completing the purchase order before items are purchased. We will also attach the final bill to the purchase order

Conclusion - Response accepted.

- II-H-07 Student Activity Funds - During our audit concerns arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281--12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund. It would appear the some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended. More specific examples of these instances of questioned items and recommendations are as follows:

There is a library, elementary library, teachers lounge and an industrial arts account. Revenues and expenditures from these accounts would appear to not meet the criteria of the Student Activity Fund. The funds in these accounts would be more appropriately handled through the General Fund.

There was a balance remaining in the clearing account. This account needs to be reviewed and allocated out among other activity accounts.

There were two interest accounts in the Student Activity Fund. Interest earned on investments during the year should be allocated to individual Student Activity Fund accounts on an annual basis.

Response - Some account have already been moved. The clearing account will be cleared at the end of the fiscal year.

Conclusion - Response accepted.

- II-I-07 Cash Given to Students - We noted during our audit of the Student Activity Fund that the District issued a check to a coach to pay for student meals at a state event. At the conclusion of the event, there were no receipts or leftover money turned in the office staff.

Recommendation - The District should document who receives cash when going on trips. The District should have a list of who received the cash and the amount. The students should sign off upon receiving cash for the trip. The District should review procedures in place and implement controls to ensure documentation is gathered to support the check written for cash needed for the trip.

Response - The check is written out to the coaches and they will bring back receipts.

Conclusion - Response accepted.

- II-J-07 Timely Deposits - We noted during our audit that deposits for the Student Activity fund were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - Deposits will be within 3 days after receiving.

Conclusion - Response accepted.

- II-K-07 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - We will reissue, void or send to the Treasurer of Iowa.

Conclusion - Response accepted.

- II-L-07 Reliable Financial Statements - Iowa School Districts are required to record the financial records on a GAAP Basis of Accounting. The financial records are normally converted at year end, after a year of cash based records. The recognition of receivables, payables, inventory, long-term debt recognition and depreciation of capital assets are all pieces which the accounting personnel is expected to be completing. The individuals performing the accounting function needs to be well trained in all areas to be effective in completing the Certified Annual Report. The Iowa Association of School Business Officials provides training to its members as does the Department of Education and Software Unlimited. This training helps in providing instruction as well as promotes networking of other accounting personnel. There were no adjustments in the Nutrition Fund made for the changes in inventories, capital assets, student lunch account balances or commodities received.

Recommendation - The maintenance of reliable accounting records has and continues to be important in every district. The necessity of the numerous adjustments for the financial statements may indicate that additional training is necessary for the accounting personnel. The District should consider sending their accounting staff to end-of-year training in an effort to provide more reliable financial statements.

Response - As per recommendation, the accounting personnel will acquire more training on the school accounting software system to enable them to be more proficient.

Conclusion - Response accepted.

II-M-07 Bank Reconciliations - We noted during our audit that the Nutrition Fund did not reconcile the bank statements to the general ledger on a timely basis. There were outstanding amounts including payroll direct deposits that were not recorded as adjustments onto the software system.

Recommendation - The District should reconcile bank statement balances to financial statement balances on a monthly basis. The bank reconciliation when performed timely, and reconciling items adjusted would provide support for the cash position. This would allow the user of the monthly financial statements a higher confidence in the amount of cash reflected on the balance sheet.

If the accounting staff is not comfortable using the accounting software to perform bank reconciliations, the District should consider sending their accounting staff to software training on bank reconciliations.

Response - The District Nutrition Fund will reconcile bank statements on a monthly basis to provide support on the cash position of the department.

Conclusion - Response accepted.

II-N-07 Sale of Real Property - It was noted that during the year the District received revenues for the sale of a building and land. This revenue was receipted into the General Fund instead of the Physical Plant and Equipment Levy (PPEL) Fund.

Recommendation - Chapter 297.22 of the Code of Iowa states that the sale of real property will be receipted into the PPEL Fund, therefore a corrective transfer from the General to the PPEL fund should be made in the amount of \$10,275.

Response - The transfer will be made in the amount of \$10,275.

Conclusion - Response accepted.

II-O-07 Organizational Chart - During the audit, it appeared that not all of the accounting personnel were communicating directly with the Chief Financial Officer (CFO). Some of the accounting personnel were answering to other administrators with no accountability to the CFO.

Recommendation - The District should review the organizational chart to ensure that clear communication lines are in place. This will allow for better compliance with all regulations and should produce better records.

Response - The organizational chart will be reviewed and changed so the accounting personnel will have accountability to the CFO.

Conclusion - Response accepted.

II-P-07 Fixed Assets - A record of fixed asset acquisitions and disbursements are kept, however these changes are not kept up to date and are not being kept on the District's software system. Fixed assets are required to be maintained for financial statement presentation.

Recommendation - Fixed asset updates should be made on a continuous basis to allow the school officials and outsiders an accurate account of the amount of fixed assets at any point in time. This is necessary for both an accurate account of assets and to ensure a proper amount of insurance is carried to cover the assets in case of loss from fire, vandalism, or theft. The District should have a complete list of additions, deletions, and current assets for reporting purposes.

Response - We are planning on having the inventory updated by an outside vendor.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

CFDA Number 10.553: School Breakfast Program and
CFDA Number 10.555: National School Lunch Program
Federal Award Year: 2007
U.S. Department of Agriculture
Passed through the Iowa Department of Education

CFDA Number 84.010: Title I Grants to Local Educational Agencies
Federal Award Year: 2007
U.S. Department of Education
Passed through the Iowa Department of Education

III-A-07 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

CRESTON COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - District expenditures for the year ended June 30, 2007 exceeded the amount budgeted in the support services functional area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - The budget will be amended in accordance with chapter 24.9 of the Code of Iowa before expenditures are allowed to exceed the budget.

Conclusion - Response accepted.

IV-B-07 Questionable Disbursements - We noted during our audit that there was an invoice paid from the General Fund for gifts from Country Hearts for \$1,020. The invoice fails to document the public purpose served.

Recommendation - The District should review these types of expenditures and document the public purpose served. The District may consider adopting a policy directed to requirements in meeting public purpose criteria.

Response - The District will review these type of expenditures and document the purpose served.

Conclusion - Response accepted.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials were noted as follows:

Name, Title and Business Connection	Transaction Description	Amount
Gary Briley, maintenance Owns Briley Plumbing	Purchased services	\$15,581

In accordance with the Attorney General's opinion dated July 2, 1990, the above transactions with the maintenance employee does not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-J-07 Electronic Check Retention - Chapter 554D.114 of the Code of Iowa allows the District to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The District retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation - The District should obtain and retain an image of both the front and back of each cancelled check as required for record retention.

Response - The District has obtained and will retain an image of both the front and back of each cancelled check as required for record retention.

Conclusion - Response accepted.

IV-K-07 Financial Condition - We noted that within the Student Activity Fund that there were deficit individual account balances.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficit.

Response - We will continue to reduce accounts that are in the red.

Conclusion - Response accepted.